CAPITAL
BUILDING INDUSTRIES LIMITED

ANNUAL REPORT 1967

CAPITAL BUILDING INDUSTRIES LIMITED

TRUSTEE Debentures – The Canada Trust Company
REGISTRAR AND TRANSFER AGENT Shares – The Royal Trust Company
AUDITORS – Vise, Rumack, Hecker, Stal & Hayeems, Toronto
LISTED ON – Toronto Stock Exchange, Canadian Stock Exchange
HEAD OFFICE – 100 Queens Avenue, London, Ontario
BRANCH OFFICES – Ottawa, Toronto, Windsor

CONTENTS

DIRECTORS and OFFICERS

D. H. SWIFT
President and Chief Executive Officer

W. G. DINGWALL
Director and Chairman,
Executive Committee, Windsor

C. W. LEONARDI, F.C.A.
Director, Oakville

R. ~~G. CROMPTON~~
Director

~~E. A. LOVELACE, C.A.~~
Director

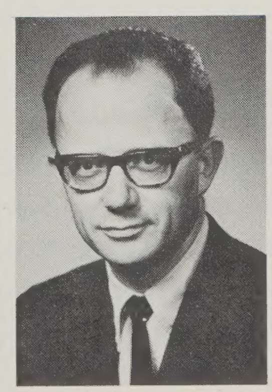
J. R. SHEMILT
Director, Toronto

R. W. YANTIS - ch Avco Delta
Director, London

new directors
⇓
N. T. Sanderson
London investor

John D. Harrison, Q.C., legal counsel, London
Jack Adams fin VP Emco Ltd, London
C. Norman Chapman exec VP EmCo, London

J. B. GIBSON
Vice-President & Secretary



J. M. WORSNOP, A.A.C.C.A.
Comptroller

REPORT TO SHAREHOLDERS

The first part of 1967 brought to a successful conclusion the planned program of consolidation which started approximately three years earlier. This long range plan was designed to eliminate all loss operations, dispose of non-revenue producing inventories and assets and ultimately place your Company in a much stronger financial position.

The most significant fact in 1967 was the purchase of Meteor Securities Limited as of October 31. This purchase will considerably enhance the value of the Company and is the beginning of a new phase whereby the Company will be completely reorganized, following the consolidation efforts of the past several years.

EARNINGS

The net profit for the year ended December 31, 1967 was $13,793 compared to $31,936 for the previous period. Sales volume was down from $9,263,931 in 1966 to $5,889,088 in 1967. This substantial reduction in volume of business was due to the consolidation program and the closing of unprofitable operations.

FINANCIAL POSITION

Further substantial reductions were made in bank indebtedness, and all debt obligations are now in a current position. This has been achieved after completing the payments under income tax reassessments which were noted in last year's report and after meeting the expenditures involved in closing down our Georgetown operations.

OPERATIONS

With the acquisition of Meteor Securities Limited, your Company has set up four operating divisions:

CONSTRUCTION DIVISION — The economic factors which have adversely affected the house building industry in Canada continued through 1967, necessitating a further curtailment in this side of the Company's business. Building operations in Hamilton were closed out during the year, thus allowing operations to be concentrated more economically and efficiently in the Windsor area. The number of single family units started during the year was reduced from 169 to 74. As noted below, the Company has now entered the multiple-family dwelling field, which will replace a considerable part of the reduced single-family dwelling activity. However, it is expected that more than 100 single-family units will be built in 1968. Through the institution of cost saving methods, along with better management control, this division will continue to make a substantial contribution to Company revenues in the future.

BUSINESS DEVELOPMENT DIVISION — This division is actively engaged in all forms of land and commercial development in Ontario and Quebec. A contract has been awarded to Capital Building Industries by the Ontario Housing Corporation for the development of a 253 family housing project in Windsor. The first stage of a town house development in Amherstburg has been completed and fully rented. This consists of a total of 32 units. The second, and final stage, of this development will be completed in 1968. In addition, plans have been approved and construction will start in 1968 on a $2,500,000 office building complex in downtown London. During the year, some of the Company's land holdings were disposed of on a profitable basis and further sales are contemplated.

RED BARN SYSTEM (CANADA) LIMITED — This chain of fast-food restaurants became an operating division of Capital when your Company purchased Meteor Securities Limited, and thereby acquired the exclusive franchise rights to the Red Barn system for Canada. There are presently 11 Red Barn units in operation and plans call for a minimum of 10 more outlets to be in operation by the end of 1968. In addition

to these outlets in Ontario there is every prospect of expansion into other provinces during the next twelve months.

MANUFACTURING DIVISION — In the report to shareholders last year it was mentioned that the manufacturing operations in Georgetown would be closed and that the cabinet and millwork plant in Ottawa would be expanded. It is gratifying to report that the expanded operation in Ottawa has continued to operate profitably and that sales in this division are still trending upward.

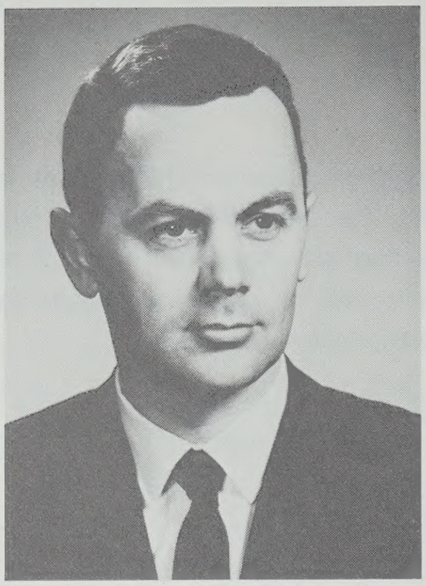
OUTLOOK

As a consequence of the actions taken in 1967, we can look forward to a great improvement in the profitability of operations in the year ahead. The acquisition of Meteor Securities Limited adds both strength and diversification and, even more important, brings into the organization a valuable nucleus of experienced management people to further ensure sound growth in the future. With the reorganization we have acquired important sources of additional financial backing to provide for continued expansion and possibly further acquisitions.

We wish to pay a special tribute to our Past President, Mr. W. G. Dingwall and former Managing Director, Mr. C. W. Leonardi, F.C.A., for their untiring efforts to return your Company to its present sound position. To this must be added our thanks and sincere appreciation to all employees and officers who have contributed in such large measure to the very promising future outlook.

Respectfully submitted on behalf of the Board of Directors.

President

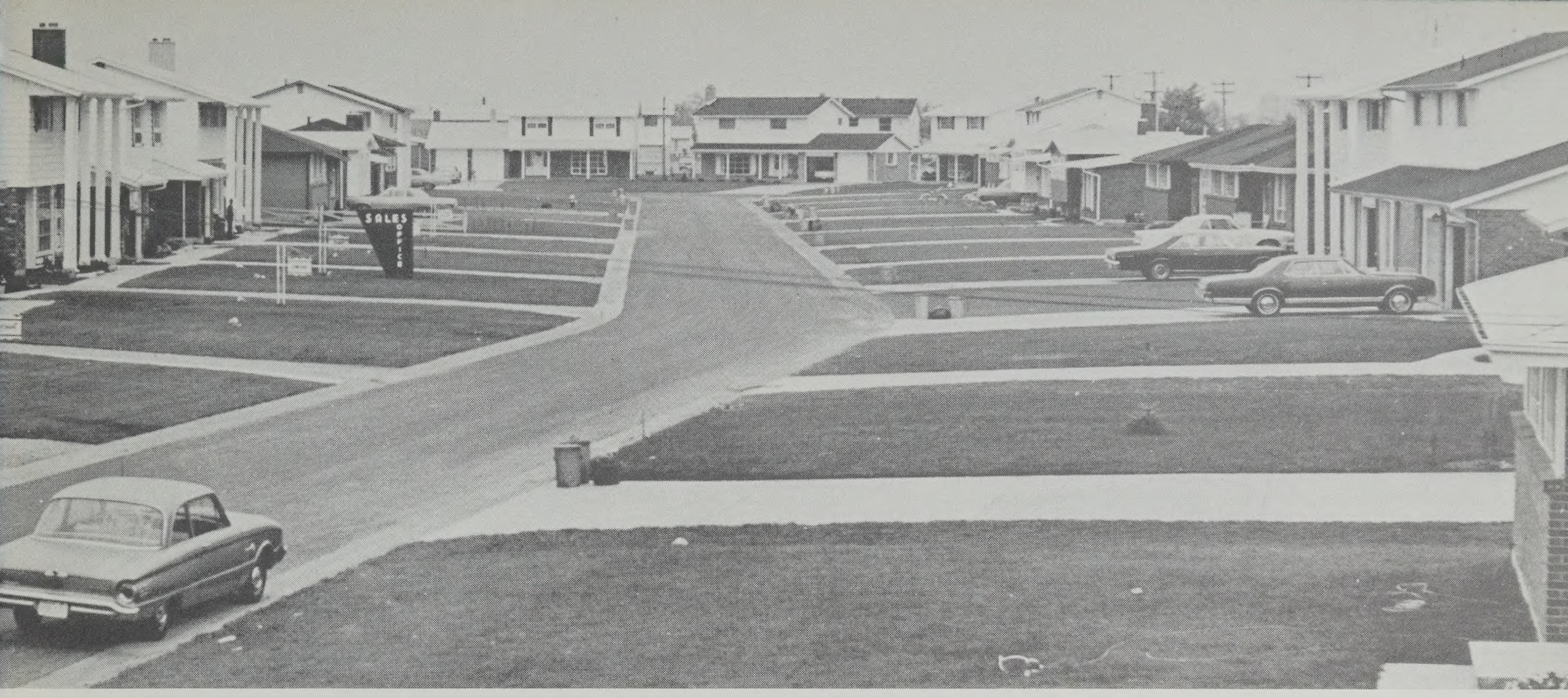


J. J. CLIFFORD, Manager

CAPITAL QUALITY HOMES

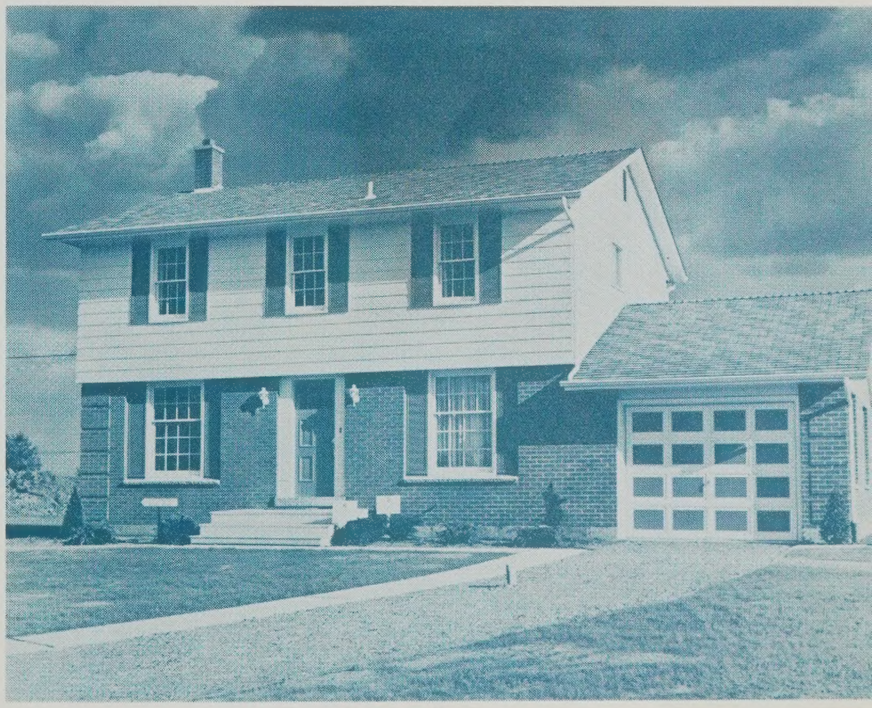
Windsor Construction Division

''Capital Quality Homes'' is one of the best known and most respected names in the residential construction industry in Southwestern Ontario. Proven sound principles of mass buying, standardized design features, sub-trade programming and close control of all phases of construction, enable Capital Quality Homes to provide top value per dollar to the home purchaser.

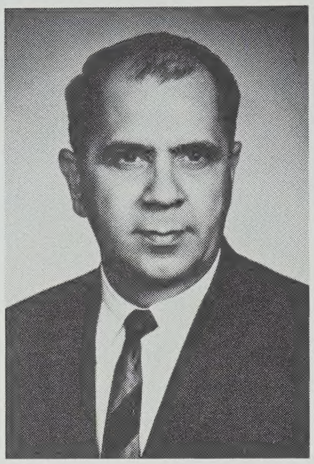


This attractive suburban development by Capital Quality Homes shows the advantages of careful advance planning to create a pleasing blend of architectural features among the various homes.

Capital Quality Homes provide graceful and comfortable living in any season.



Here are several variations of the same basic home design. While appearance changes are substantial, important economies in volume buying and construction can be realized by adhering to a few standardized plans.

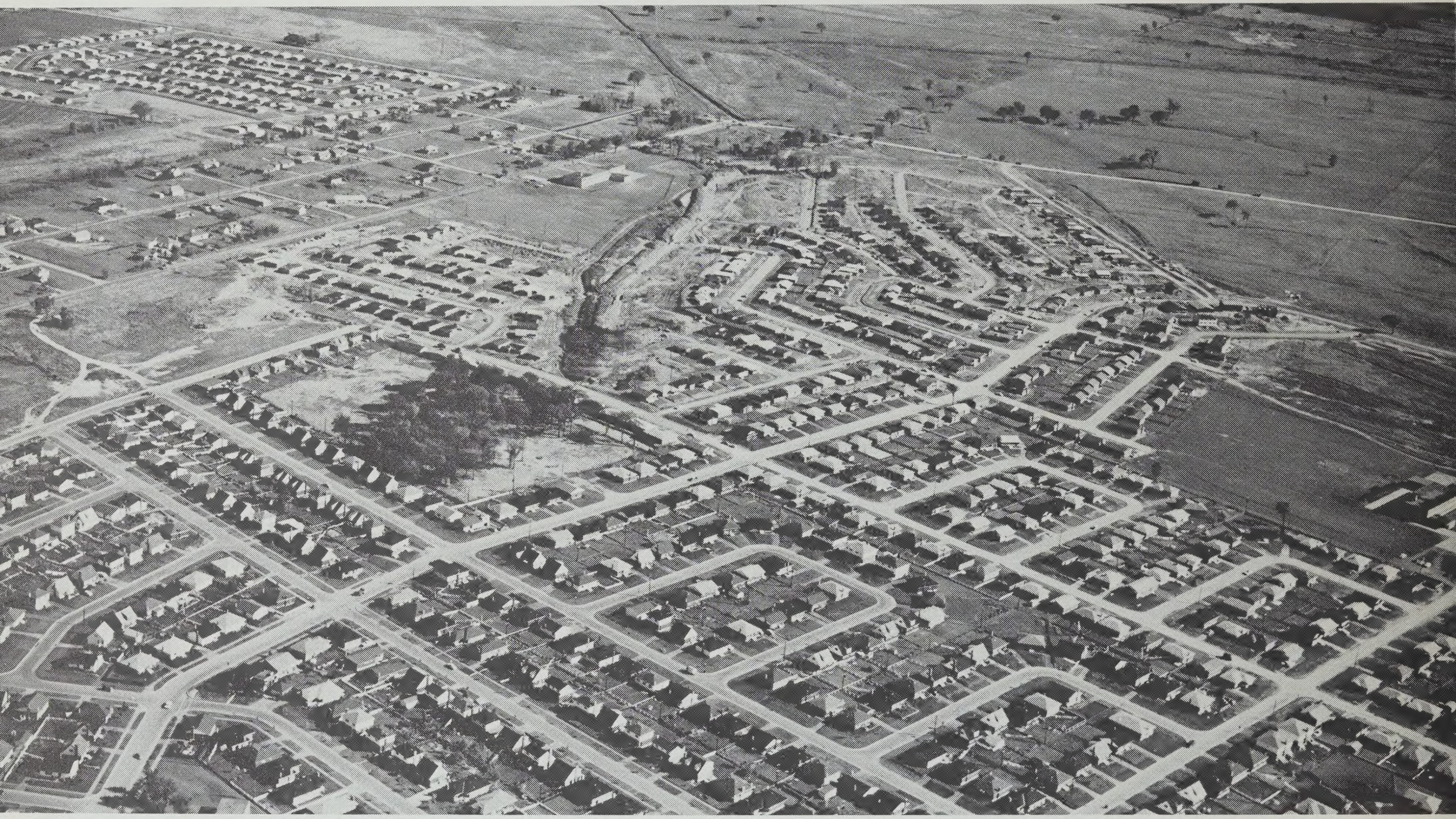


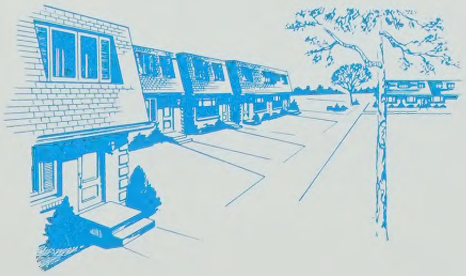
L. A. DEMERS, Manager

BUSINESS DEVELOPMENT DIVISION

This division is primarily engaged in the purchase, sale and development of land for residential housing and commercial purposes. It is also engaged in rental leasebacks, engineering and servicing.

Current projects include development of an Ontario Housing Corporation sponsored housing scheme for 253 families in the Windsor area and arrangements for a multi-storey office building in downtown London.





(above) An aerial view of a typical housing project developed by the Business Development Division of Capital Building Industries Limited. Similar projects have been undertaken in Montreal, Ottawa, Hamilton, London and Windsor.

(left) Artist's impression of typical row of town houses presently nearing completion.

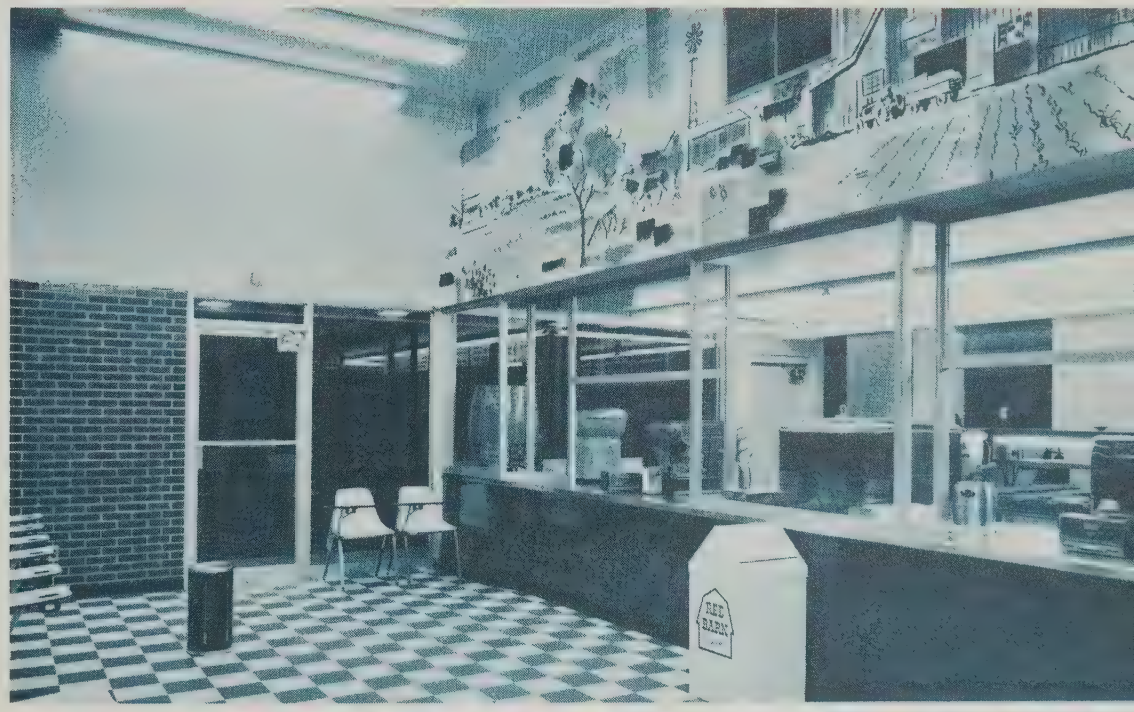
A large international corporation will be the principal tenant in this multi-storey office building, nearing the construction stages on Dufferin Avenue near Richmond Street in downtown London.

RED BARN SYSTEM

With the recent purchase of Meteor Securities Limited, Capital Building Industries Limited acquired the exclusive Canadian franchise rights to the RED BARN System of fast-service restaurants, through a subsidiary company, Red Barn System (Canada) Limited. With the experience of the Red Barn chain in the United States to back up Canadian operations, there is every reason to look forward to profitable expansion, on a sound basis of a proven successful formula of restaurant operation and a highly respected image of foremost quality. There are presently 11 Red Barn units operating in Ontario and plans call for opening at least an additional 10 units in 1968.

H. SHNEER, President
Red Barn System (Canada) Ltd.

Patrons of Red Barn can obtain a meal in 60 seconds. The streamlined efficiency of Red Barn service would be impossible without carefully planned layouts, a thorough training program and top quality equipment.



Rigid standards of cleanliness, quality and efficiency are maintained by means of close supervision.

Each Red Barn restaurant has an identical menu, based on a successful U.S. concept of an economical, fast-food operation. Promotional emphasis is based on appealing to the local family trade, which produces a high percentage of repeat business.

C. D. DESJARDINS, Manager

ESSEX CABINET MAKERS

The Essex Cabinet Makers division, located in Ottawa, specializes in architectural woodworking, mainly for schools, hospitals, churches and office buildings. The cabinet and millwork operation employs 32 people and serves a large section of Eastern Ontario.

(left) Here, a prestige project beautifully executed. Waiting room in the British High Commission Building, Ottawa. All panelling and cabinets are in rosewood.

(right) Dining Room cabinets installed at the Highland Park High School, Ottawa.

Attractive and functional, these Home Economics Room cabinets designed and built for the Sir John A. Macdonald High School, Ottawa are representative of the quality of school furnishings being produced by the Essex Cabinet Makers division.

CAPITAL BUILDING INDUSTRIES LIMITED

(Incorporated under the Laws of Ontario)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1967

ASSETS

	1967	1966
CURRENT		
Accounts receivable	$ 274,882	$ 318,526
Mortgage draws receivable	177,298	503,211
Real Estate Inventory (Note 2)	582,145	1,368,452
Land and improvements not yet utilized in construction — at the lower of cost and net realizable value — (Note 3)	1,249,312	1,764,792
Inventory of millwork materials — at the lower of cost and net realizable value	69,055	62,134
Sundry assets and prepaid expenses (Note 4)	304,946	220,691
	2,657,638	4,237,806
INVESTMENTS		
Commercial land and apartment sites	2,002,208	111,838
Mortgages and notes receivable — non-current portion	395,675	376,241
Equity in and advances to affiliated companies	161,978	206,678
	2,559,861	694,757
FIXED		
Land, equipment, furniture and leasehold improvements — at cost	749,486	203,752
Less: Accumulated depreciation	192,422	67,861
	557,064	135,891
OTHER		
Organization, financing expenses and deferred charges, less amounts amortized to date	127,745	92,349
Excess of cost of shares of a subsidiary over equity acquired therein	960,437	—
	1,088,182	92,349
	$6,862,745	$5,160,803

Approved On Behalf Of The Board

W. G. Dingwall, Director

C. W. Leonardi, F.C.A., Director

The accompanying notes to the Consolidated Financial Statements are an integral part thereof and should be read in conjunction therewith.

LIABILITIES

	1967	1966
CURRENT		
Bank indebtedness — part of which is secured by assignment of book debts and Series B Debentures (Note 8)	$ 429,455	$ 740,716
Accounts payable and accrued liabilities	489,899	944,405
Income taxes payable	30,136	46,725
Mortgages payable and balances owing on agreements of sale (Note 5)	351,096	1,062,167
Current portion of deferred liabilities (Note 6)	263,090	—
	1,563,676	2,794,013
DEFERRED		
Mortgages and liens payable — non-current portion (Note 7)	1,373,207	37,056
6¼% Convertible Sinking Fund Debentures — Series A — maturing April 1, 1977 (Note 8)	900,000	1,000,000
Lease Securities (Note 9)	94,000	—
Deferred finance revenue	23,743	—
Secured income debentures — due January 1, 1978 non-current portion (Note 10)	838,314	—
	3,229,264	1,037,056
DUE TO VENDORS OF SHARES OF METEOR SECURITIES LIMITED to be satisfied through the issuance of CAPITAL STOCK (Note 1)	750,000	—
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Notes 1 and 12)		
Authorized 2,000,000 shares without par value		
Issued and Fully Paid 1,435,500 shares	2,394,054	2,349,054
DEFICIT	(1,074,249)	(1,019,320)
	1,319,805	1,329,734
	$6,862,745	$5,160,803

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
SALES	$5,889,088	$9,263,931
COST OF SALES	5,290,007	8,535,677
	599,081	728,254
Add: Sundry income	117,300	182,849
GROSS EARNINGS FROM OPERATIONS	716,381	911,103
Deduct: Selling, general and administrative expenses	606,258	821,572
Interest on long term debt	85,626	62,500
Depreciation	26,903	31,740
Amortization of financing expenses	8,056	8,056
	726,843	923,868
	(10,462)	(12,765)
Gain on purchase and cancellation of Company debentures	24,255	—
Gain on sale of factory building	—	44,701
NET EARNINGS FOR YEAR	$ 13,793	$ 31,936

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED DECEMBER 31, 1967

	1967	1966
Balance at beginning of year	1,019,320	909,256
Income tax assessments pertaining to prior years	7,897	142,000
Losses on disposal of manufacturing division assets	60,825	—
	1,088,042	1,051,256
Deduct: Net earnings for year	13,793	31,936
Balance at end of year	$1,074,249	$1,019,320

The accompanying notes to the Consolidated Financial Statements are an integral part thereof and should be read in conjunction therewith.

AUDITORS' REPORT

TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Capital Building Industries Limited as at December 31, 1967 and the consolidated statements of operations and deficit for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations for the year ended on that date, in accordance with generally accepted accounting principles, applied on a basis consistent with that of the preceding year.

(Signed) VISE, RUMACK, HECKER, STAL & HAYEEMS
CHARTERED ACCOUNTANTS

Toronto, Canada
March 29, 1968

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1967

NOTE 1

On February 16, 1968 at a special general meeting of shareholders of the Company, the following were passed:

1. A resolution approving the purchase by the Company of all of the issued and outstanding shares in the capital of Meteor Securities Limited (as of October 31, 1967) at a price of $750,000, payable by the issuance of 1,000,000 shares without nominal or par value in the capital of the Company to the vendors thereof.

2. A special resolution authorizing an application for supplementary letters patent increasing the authorized capital of the Company by creating an additional 3,000,000 shares without par value ranking pari passu with the existing 2,000,000 shares of the Company.

The purchase of the shares of Meteor Securities Limited was effective as of October 31, 1967, but not closed until March 29, 1968. Accordingly, the consolidated balance sheet gives effect to the accounts of Meteor Securities Limited as at December 31, 1967, and reflects the purchase price in the amount of $750,000 as unpaid. This liability was discharged on closing through the issuance of 1,000,000 shares without nominal or par value in the capital of the Company to the vendors of Meteor shares.

The consolidated statement of earnings includes earnings of Meteor Securities Limited for the period November 1, 1967 to December 31, 1967.

The 1966 comparative figures on these financial statements do not reflect any items applicable to Meteor Securities Limited.

NOTE 2

Real estate inventory consists of the following:

Land, improvements and buildings both under construction and completed, at the lower of cost and net realizable value	$1,087,673
Deferred indirect expenses on units under construction	91,736
	1,179,409
Deduct: Mortgage advances ...	597,264
	$ 582,145

NOTE 3

Under several agreements of sale, and in accordance with the terms therein, the Company has bought land but has not yet had title transferred to it. In accordance with accepted practice in the construction industry, the purchase price, together with the corresponding liability has been reflected in the accounts.

NOTE 4

Sundry assets and prepaid expenses consist of the following:

Current portion of mortgages and notes receivable	$224,067
Bonds, at cost	21,528
Sundry assets and prepaid expenses	59,351
	$304,946

NOTE 5

Mortgages payable and balances owing on agreements of sale are secured by land held for sale and bear interest at rates ranging from 0% to 8%. The maturity dates are as follows:

1968	$261,529
1969	89,567
	$351,096

The maturity dates shown above do not reflect the prepayment of principal upon the construction or sale of real estate.

NOTE 6

Current portion of deferred liabilities consists of the following:

Current portion of deferred mortgages payable	$140,704
Current portion of secured income debentures	105,386
Sinking fund requirement	17,000
	$263,090

NOTE 7

Mortgages and liens payable — non-current portion	$1,373,207

This is secured by fixed assets and commercial real property and has due dates as indicated below:

1968	10% to 12%	$ 84,782
1969	6% to 10.85%	43,891
1970	7% to 10%	100,584
1971	10% to 12%	232,476
1972	6% to 11%	17,886
1973	7.5%	111,794
1974	6%	108,275
1975	10%	38,317
1978	7%	41,857
1990	5.7%	707,074
2000	6%	31,975
		1,518,911
Less: Current portion		145,704
		$1,373,207

The maturity dates shown above reflect only the due dates of the balances owing as at December 31, 1967 and do not reflect the systematic payment of principal.

NOTE 8

The 6¼% Convertible Sinking Fund Debentures Series A, (herein called the "Series A Debentures") were issued pursuant to a Trust Indenture, dated as of March 15, 1962, which provided for the issuance (subject to certain conditions) of additional Debentures without limitation as to the aggregate principal amount. In the said Trust Indenture, the Company covenanted to establish a sinking fund to provide for the retirement of $100,000 aggregate principal amount of Series A Debentures on April 1st in each of the years 1963 to 1976 inclusive. During the year, the Company purchased and cancelled $83,000 of the Series A Debentures. In accordance with the terms of the said Trust Indenture, the $83,000 Series A Debentures purchased and cancelled are available to the Company as a sinking fund credit. The Company prior to February 15, 1968 and subsequent to December 31, 1967, purchased for cancellation additional Series A Debentures of the Company. This additional purchase, when added to the purchase and cancellation of the aforementioned $83,000 Series A Debentures, aggregated more than the $100,000 sinking fund requirement due April 1, 1968. Accordingly, the Company elected to apply as a sinking fund credit this $100,000 principal amount of Series A Debentures in satisfaction in whole of the sinking fund payment required to be made prior to April 1, 1968.

Pursuant to a First Supplemental Indenture dated as of November 15, 1962, the Company issued $700,000 aggregate principal amount of 6% Sinking Fund Debentures Series B, (herein called the "Series B Debentures") maturing November 15, 1977. The Series B Debentures were issued as collateral security only to the Company's bankers.

Pursuant to a Third Supplemental Indenture dated as of September 13, 1963, the Company issued $150,000 aggregate principal amount 6% Debentures Series C (herein called the "Series C Debentures") maturing November 15, 1977. The Series C Debentures were issued as collateral security only to the Department of National Revenue. The income tax liability secured by the Series C Debentures has been discharged and the Debentures are in the process of being cancelled.

Pursuant to a Fourth Supplemental Indenture dated as of February 17, 1965, as approved by the Debenture-holders, the provisions relating to conversion price of the Series A Debentures and adjustments contained in the said Trust Indenture were amended. For the results of these changes, see Note 12.

The Trust Indenture and the Supplemental Indentures provide for certain restrictions on the payment of dividends on the shares of the Company.

NOTE 9

Lease Securities—This represents interest-free deposits contributed by franchisees of the Red Barn System, as security to ensure the good performance of their lease obligations and will be refunded to them in equal instalments over the last ten years of their twenty year leases.

NOTE 10

Meteor Securities Limited (herein called the Company) has issued Secured Income Debentures in the amount of $943,700, of which $105,386 has been reflected as a current liability.

Interest shall be paid on the Secured Income Debentures on the Interest Payment Date (as hereinafter defined) only to the extent that there are earnings of the Company available for the service thereof, up to the maximum rates of interest set forth below.

The earnings available for service on any Interest Payment Date shall be the audited Consolidated Earnings of the Company and its subsidiaries earned during the calendar year immediately preceding the Interest Payment Date after deducting all costs, expenses and the corporation and other taxes payable by the Com-

pany but before the payment of any interest due on the Debentures or of any dividends on the outstanding shares of the Company. The Interest Payment Date shall be the earlier of June 30 in each year or a date 30 days after the audited Consolidated Financial Statements of Capital Building Industries Limited become available for the immediately preceding year. During each of the calendar years 1968 to 1977 inclusive the maximum rate of interest payable on the Debentures shall be determined by the audited Consolidated Earnings (after taxes but before the payment of interest on the Debentures) of Capital Building Industries Limited in the following manner:

Consolidated Earnings of Capital Building Industries Limited	Rate of Interest Payable
Less than $250,000	2%
$250,000 or More but Less than $300,000	3%
$300,000 or More but Less than $350,000	4%
$350,000 or More but Less than $400,000	5%
$400,000 or More	6%

Principal payments on Debentures shall be made on the Interest Dates in each of the years 1974 to 1977 inclusive, equal to 20% of the aggregate principal balance outstanding on the immediately preceding December 31 provided that any such payment shall not be greater than 50% of such audited Consolidated Earnings of Capital Building Industries Limited. The balance of principal outstanding on the Debentures shall be due on January 1, 1978. If any real property owned by Meteor Securities Limited or its subsidiaries is sold, an amount equal to 50% of the net cash proceeds from the sale of any properties shall be paid to the Debenture-holders on account of principal, except that an amount equal to 100% of the net cash proceeds from the sale of one specific property, shall be paid to the Debenture-holders on account of principal.

The Debentures will be secured by (i) a fixed specific mortgage, pledge and charge of the shares owned by Meteor Securities Limited in its said subsidiaries, any real property owned by the Company at the date of creation of the Debentures and the basic "Red Barn" Franchise Agreement and (ii) a first floating charge on the undertaking of the Company and all its property and assets, real and personal, movable and immovable, of whatsoever nature and kind, both present and future, otherwise than charged by the fixed specific mortgage pledge and charge aforesaid. The obligations of the Company under the Debentures will be guaranteed by four of the Company's subsidiaries. The guarantee of each of such subsidiaries will be secured by a fixed specific mortgage pledge and charge of any real property owned by each of them at the date of creation of the Debentures.

NOTE 11

A director and senior officer of the Company exercised, on December 14, 1967, his option to purchase 50,000 shares without par value in the capital of the Company at the price of $.90 per share.

NOTE 12

The Trust Indenture dated as of March 15, 1962, provided conversion privileges for outstanding Series A Debentures at rates ranging from $6 to $9 per share. On February 17, 1965, a general meeting of Debenture-holders approved a change in the provisions of the said Trust Indenture relating to conversion price on the Series A Debentures and adjustments. As a result of these changes and the issuance in 1965 of 333,000 shares to existing principal shareholders for $299,700 cash plus the issuance pursuant to the exercise of an option referred to in Note 11 in 1967 of 50,000 shares for $45,000 cash, the conversion rate is now $3.17 principal amount of Series A Debentures per share. As a result of the aforementioned, and the purchase and cancellation by the Company during the year of $83,000 of the Series A Debentures referred to in Note 8, 289,274 shares are now reserved for issuance upon the

exercise of the conversion privileges attached to the balance of the outstanding Series A Debentures.

Twenty-five thousand shares are reserved under an employees' share option plan at $1.85 per share, exercisable as to all or any of the optioned shares at any time from time to time commencing April 30, 1964 and expiring on April 30, 1972. In addition an option has been granted to a director and officer to purchase 25,000 shares at $.90 per share at any time prior to March 22, 1970.

NOTE 13

No remuneration was paid or payable to the directors as such during the Company's fiscal period ended on December 31, 1967. The total direct remuneration paid or payable by the Company during this period to the senior officers including the five highest employees was $84,810.

NOTE 14

Lease Requirements — Minimum annual rental costs under lease agreements which extend for more than five years from December 31, 1967 aggregate approximately:

1968-1974	$71,400
1975-1983	69,950
1984	59,500
1985	25,500

NOTE 15

The statement of source and application of funds has been omitted from these consolidated financial statements, due to the fact that the reflection this year of the Meteor Securities Limited accounts does not make this statement comparable with 1966.